

Budget Overview

2004-2006 Executive Budget

House Appropriations and Revenue Committee

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Governor's Office of Policy and Management

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Polestar objective

Make Kentucky Competitive

A competitive Kentucky

Make Kentucky
Competitive

- **Educated people**

- High impact teaching
 - 100% third grade literacy
 - Access to lifelong learning and skills training

- **Healthy people**

- Encouragement of healthy lifestyle choices
 - Access to quality healthcare at reasonable cost

- **Business-friendly climate**

- Retains and attracts valuable human capital
 - Encourages entrepreneurship and stimulates job growth
 - Avoids increased tax burden on private sector

Themes of the Executive Budget

Make Kentucky
Competitive

The Governor's Budget

- Makes strategic investments for economic opportunity
- Reflects tough decisions
- Fixes the Commonwealth's broken financial condition
- Calls for shared sacrifice

General budget approaches

Make Kentucky
Competitive

- Most agencies flat funded in both years from reduced FY 04 base budgets
- Increased costs must be absorbed within baseline funding
- Personnel management will be used to absorb minor increased costs of salary and fringe benefits policy
 - Health Insurance
 - Retirement Contributions
 - Salary Increases
- Limited new funds invested primarily in economic development, education, public safety

Salary and fringe benefits policies

Make Kentucky
Competitive

- Health Insurance cost increases assumed at 4.5% for FY 05 and 6.5% for FY 06
- Retirement contributions maintained at FY 04 rates
- Salary Increases of 1.5% in FY 05 and 3.0% in FY 06

Fiscal responsibility

Make Kentucky
Competitive

- Increased value through efficiency
- Reliance on management science and information technology
- Conservative and frugal
- Recognition that inefficient spending damages economic development

Signature features of the Governor's budget

Make Kentucky
Competitive

- Directs that every new investment dollar will create economic opportunity
- Recognizes state universities and community and technical colleges as the primary engines for economic advancement
- Targets increased funding directly to the classrooms of Kentucky public schools
- Eliminates the structural deficit without increased taxes

Top view numbers

Make Kentucky
Competitive

	<u>FY 05</u>	<u>FY 06</u>
General Fund Resources*		
Beginning Balance	\$ 110,419,300	\$ -0 -
CFG Revenue Estimate	\$7,153,800,000	\$7,457,000,000
Other Resources	\$ 21,771,600	\$ 33,451,200
Fund Transfers	<u>\$ 28,751,500</u>	<u>\$ 81,359,300</u>
Total	\$7,314,742,400	\$7,571,810,500

•Other resources Include continuation of revenue measures in HB 269, enhanced accounts receivable collections, abandoned property receipts, KEES reserve account for unclaimed lottery prize funds, and technical adjustments.

*excluding Tobacco Phase I funds

Top view numbers

Make Kentucky
Competitive

General Fund Appropriations*

Fiscal Year 2004 (Revised)	\$7,237,376,500
Fiscal Year 2005	\$7,314,742,400
Fiscal Year 2006	\$7,571,810,500

Recommended Bond Projects	\$694,500,000
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*excluding Tobacco appropriations

Background: budget reduction order

Make Kentucky
Competitive

Problem:

Budgetary Shortfall	\$302,571,300
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Solution:

Transfers	\$179,131,320
Recaptures	<u>\$123,439,980</u>
Total	\$302,571,300

Background:

2.5% stability initiative

Make Kentucky
Competitive

- Self-imposed spending limitations equal to 2.5%
- Intended to create \$100 million fund
- Allows government to begin on July 1 not at zero but with \$100 million
- Avoids more drastic cuts in FY05

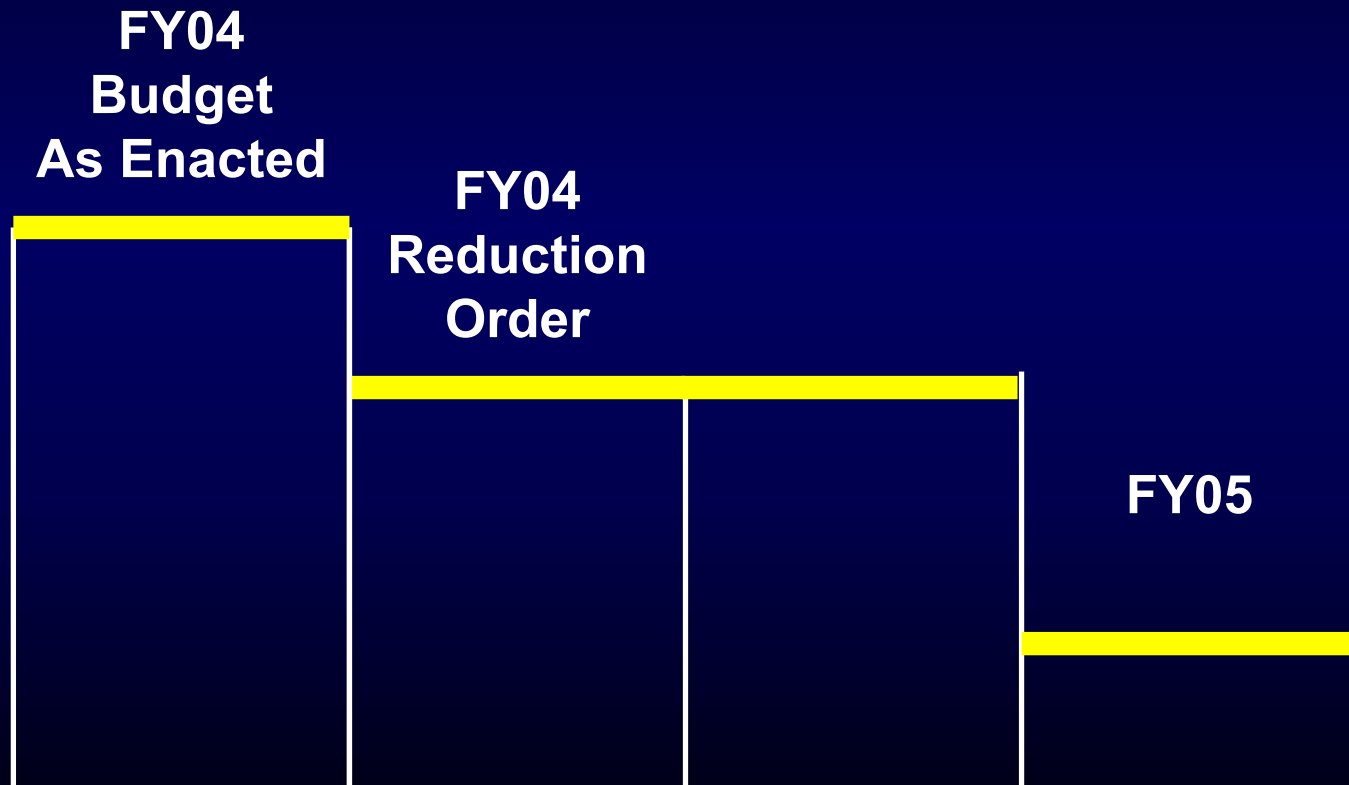
Background: 2.5% stability initiative

Make Kentucky
Competitive

General Funds	\$62,856,100
Restricted Funds	<u>\$47,563,200</u>
Total	\$110,419,300

Background: 2.5% stability initiative

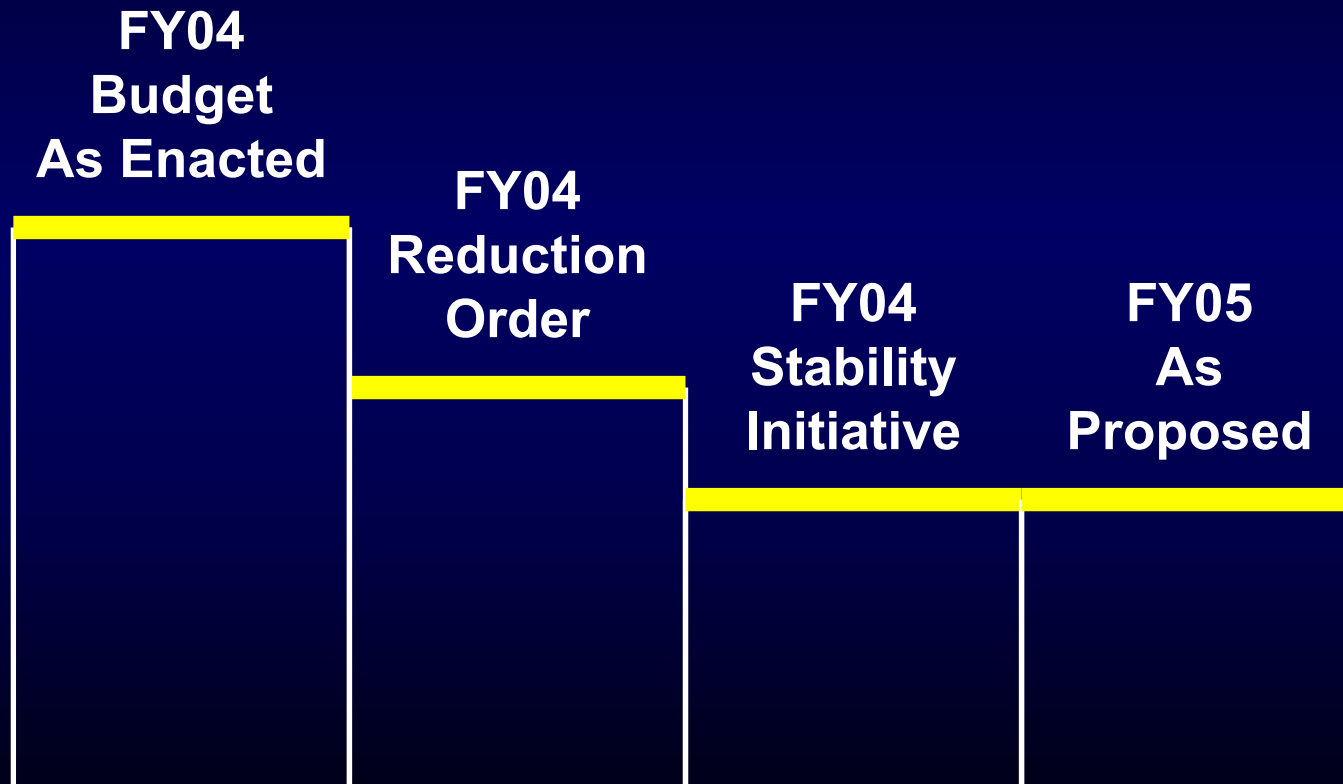
Make Kentucky
Competitive



Background:

2.5% stability initiative

Make Kentucky
Competitive



Background:

2.5% stability initiative

Make Kentucky
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- Continues aggregate spending on a firm and level path from FY04
- Avoids anticipated shortfall in summer of 2004 feared by many Kentuckians

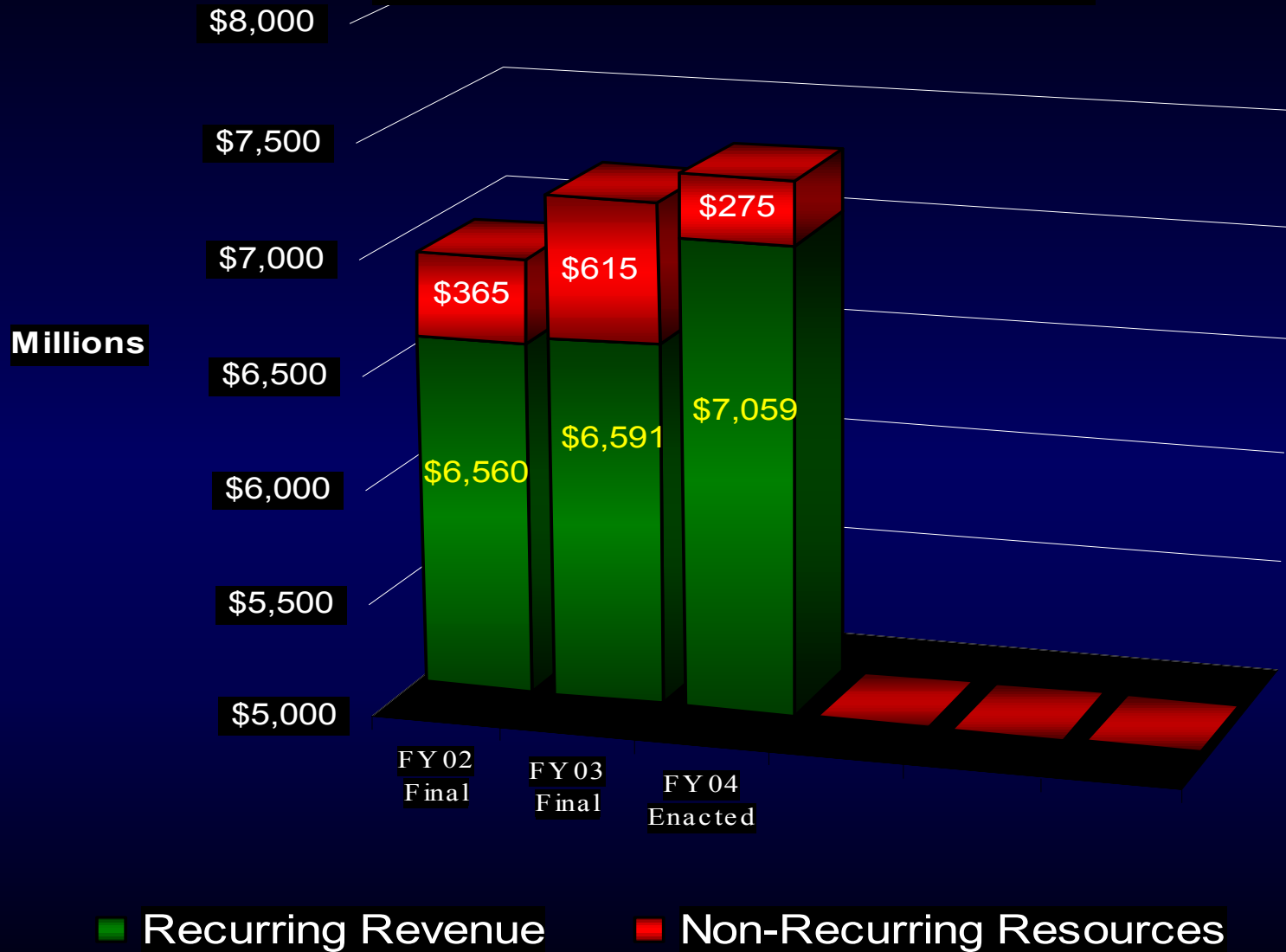
Fiscal Year 2004 as enacted	\$7,380,099,700
Fiscal Year 2004 after budget order	\$7,279,901,700
Fiscal Year 2004 w/ 2.5% stability init.	\$7,237,376,500
Fiscal Year 2005 as proposed	\$7,314,742,400

Partnerships

Make Kentucky
Competitive

- \$100 million savings goal will be achieved
- SEEK funding and Medicaid were exempted
- These funds have been appropriated in the FY05 budget
- Efficiency initiatives at state universities contributed \$41 million following flexibility opportunities
- Chief Justice Lambert's spending reductions of \$2 million
- Spending reduction of \$839,000 in current year by General Assembly

General Fund Resources Recurring and Non-Recurring



General Fund Resources Recurring and Non-Recurring



General Fund Resources Recurring and Non-Recurring



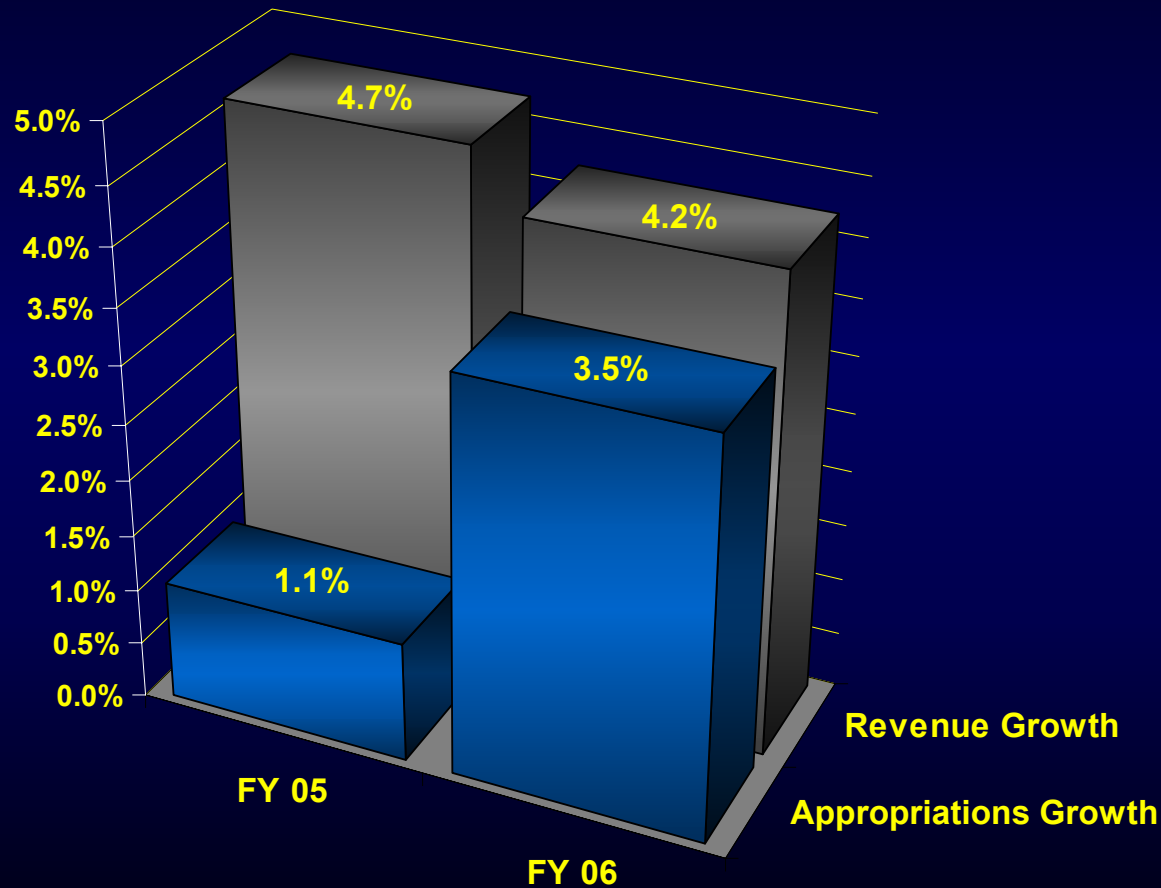
General Fund Resources Recurring and Non-Recurring



■ Recurring Revenue

■ Non-Recurring Resources

Appropriations can't grow with revenues until we eliminate the structural imbalance



1. Economic opportunity

Make Kentucky
Competitive

- Emphasis on technology and new economy investments
- Strengthening of infrastructure
- Benefit for all regions of the state

Investments at colleges and universities

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- Training centers for technology education
- Technology transfer and research
- Primary research facilities
- Science facilities

Research facilities

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Competitive

- Pharmaceutical research facility, University of Kentucky
- Health science research facility, University of Louisville
- NASA space science center at Morehead
- Seed money for federal research lab

KCTCS technology and training centers

Make Kentucky
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- Ashland
- Edgewood (Northern Ky.)
- Franklin
- Madisonville
- Owensboro
- Somerset
- Warren County

Science facilities

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- New science complex at Murray State University
- Renovation of science campus at Western Kentucky University
- Math & science academy at Western Kentucky University

Economic development programs

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- Economic development bond authority
- Bluegrass State Skills Corporation
- New economy program
 - Coal bed methane initiative
 - Clean coal technology
- Advanced agriculture investments

Economic development infrastructure investments

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- Water and sewer projects for economic development
- Louisville airport relocation assistance
- Regional special events center at Northern Kentucky University
- State park renovations
- Investment in transportation infrastructure

Economic development infrastructure investments

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Competitive

- Investment in transportation infrastructure
 - Maximize state construction by using Toll credits to match federal dollars - \$108 million more in state construction
 - Continue cash management program to effectively invest in state infrastructure
 - Issue GARVEE (Grant Anticipation Revenue Vehicles) bonds to advance construction on Interstates 64, 65, and 75 to spur economic growth

2. Educational excellence

Make Kentucky
Competitive

- Increased funding directly to the classroom
- Emphasis on early reading initiative
- Honoring prior capital construction pledges
- Restore textbook funding

Teacher salary increments

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- Goal: high impact teaching
- Strategy: increase funding directly to the classroom
- Budget: raise teacher salaries

1.5% salary increase in FY05

3.0% salary increase in FY06

- Source of funds:

Local school districts in FY05

Full state funding in FY06

Early reading initiative

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- Goal: 100% early literacy
- Strategy: Read to Achieve
- Budget: \$2 million additional appropriation each year

Special investments in higher education

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Competitive

- Increased student financial aid
100% of lottery proceeds in FY06
- Tuition assistance for National Guard personnel
- \$5 million baseline increase to CPE in FY06 to rebalance disproportionate growth
- Reasonable funding for maintenance and operation of new facilities

- Young Hall renovation
- Hathaway Hall renovation
- Final compliance with partnership agreement with federal Office of Civil Rights
- Increased funds for Land Grant match

3. Managerial initiatives and special needs

Make Kentucky
Competitive

- Public safety
- Drug abuse enforcement
- Medicaid
- State health program
- Tax and Accounts Receivable Collection Initiative

Public safety

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- Confronted by increased prison population
- Maintain sworn complement of state police
- Funding for evidence facility
- Opening Elliott County prison with private management
- More efficient use of county jail capacity
- Opening juvenile detention facilities in Boyd, Hardin, and Fayette Counties

Drug abuse initiatives

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- Aggressive enforcement through coordinated program
- Expansion of drug court program to 61 additional counties

Medicaid

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- Exploding costs exceed state's capacity to maximize match
- Long term objective is complete overhaul of the program
- Focus on care management: healthy choice incentives and education programs
- More effective benefit management
- More effective cash management

State health program

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- Exorbitant cost increases exceed state's financial capacity
- Long term objective is wholesale reform of the program
- Short term necessity is to share cost increase with state employees and teachers
- Program will be family friendly

Tax and accounts receivable collection initiative

Make Kentucky

Competitive

- Enhanced efforts to collect overdue taxes
- Investment in systems and support to collect payments due to other state agencies
- Additional General Fund revenue to be collected:
 - \$10 million in FY 05
 - \$20 million in FY 06
- Technology investment for Streamlined Sales Tax Project to position Kentucky to collect more taxes on remote sales

Top view numbers

Make Kentucky
Competitive

General Fund Appropriations

Fiscal Year 2004 (Revised)	\$7,237,735,300
Fiscal Year 2005	\$7,314,742,400
Fiscal Year 2006	\$7,571,810,500

Recommended Bond Projects	\$694,500,000
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General Fund appropriations by cabinet

Make Kentucky
Competitive

	FY 2005	FY 2006
Government Operations	\$ 227,110,000	\$ 247,332,800
Commerce	\$ 50,726,900	\$ 53,475,300
Economic Development	\$ 19,016,700	\$ 20,998,600
Department of Education	\$ 2,955,400,700	\$ 3,049,684,900
Education Cabinet	\$ 278,266,800	\$ 297,837,900
Postsecondary Education	\$ 1,146,115,900	\$ 1,202,629,400
Environmental and Public Protection	\$ 111,772,200	\$ 112,027,900
Finance and Administration	\$ 417,688,100	\$ 427,793,300
Health and Family Services	\$ 1,355,590,300	\$ 1,378,669,300
Justice and Public Safety	\$ 479,911,400	\$ 488,043,500
Transportation	\$ 4,753,400	\$ 4,753,400
Statewide	\$ 10,000,000	\$ 18,000,000
Total Executive Branch	\$ 7,056,352,400	\$ 7,301,246,300
Legislative Branch	\$ 40,616,400	\$ 40,616,400
Judicial Branch	\$ 217,773,600	\$ 229,947,800
Grand Total State Government	\$ 7,314,742,400	\$ 7,571,810,500

Phase I tobacco settlement funds

Make Kentucky
Competitive

- 50% Agricultural Development Fund
- 25% Health Care Improvement Fund
- 25% Early Childhood Development Fund

Coal severance funds

Make Kentucky
Competitive

- Maintain revenue sharing at 50%
- Not redirecting money to Governor's office to support administrative functions

	FY 05	FY 06
Local Government Economic Assistance Fund	\$ 32,451,700	\$ 32,157,200
Local Government Economic Development Fund	\$ 38,970,600	\$ 37,583,500
<i>Single County includes:</i>		
Economic Development Regional Office	\$ 755,400	\$ 768,500
New Economy Projects, including Clean Coal Technology	\$ 3,625,000	\$ 3,500,000
Debt Service for K-12 Schools Authorized by 2003 GA	\$ 3,232,500	\$ 4,617,900
Debt Service for new \$50 million water & sewer projects in coal counties		\$ 1,906,800
Flood control matching for coal counties	\$ 1,500,000	\$ 1,500,000
Local Government Economic Development Fund		
<i>Multi-County includes:</i>		
West Kentucky Corporation	\$ 467,000	\$ 467,000
Read to Achieve initiative	\$ 2,000,000	\$ 2,000,000
Tourism Marketing	\$ 2,000,000	
Debt Service for new \$50 million water & sewer projects in coal counties		\$ 2,860,200
Debt Service for Parks renovation projects		\$ 2,384,000

Capital investment recommendations

Make Kentucky
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- All investment projects must generate economic opportunities

Postsecondary Education Investments	\$386 Million
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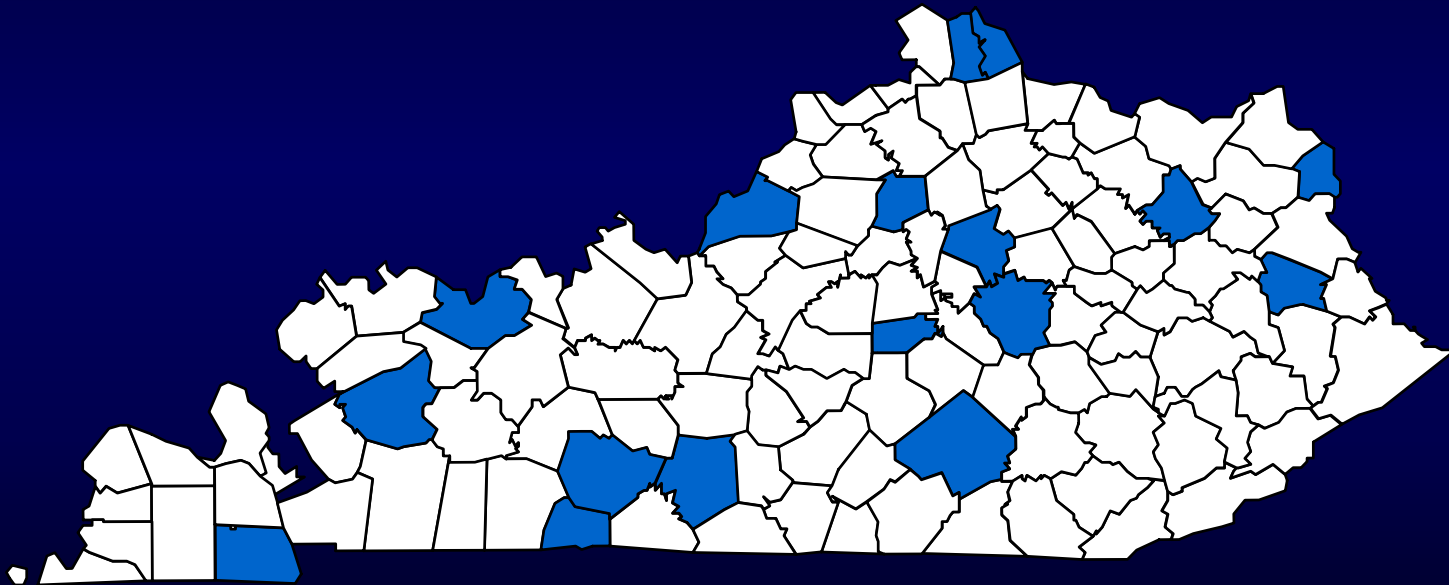
Economic Development, Tourism, and Agricultural Development Investments	\$67 Million
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Water and Sewer Project Investments	\$66 Million
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Technology and State Infrastructure Investments	\$173 Million
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Geographic distribution of bond authorization projects

Make Kentucky
Competitive



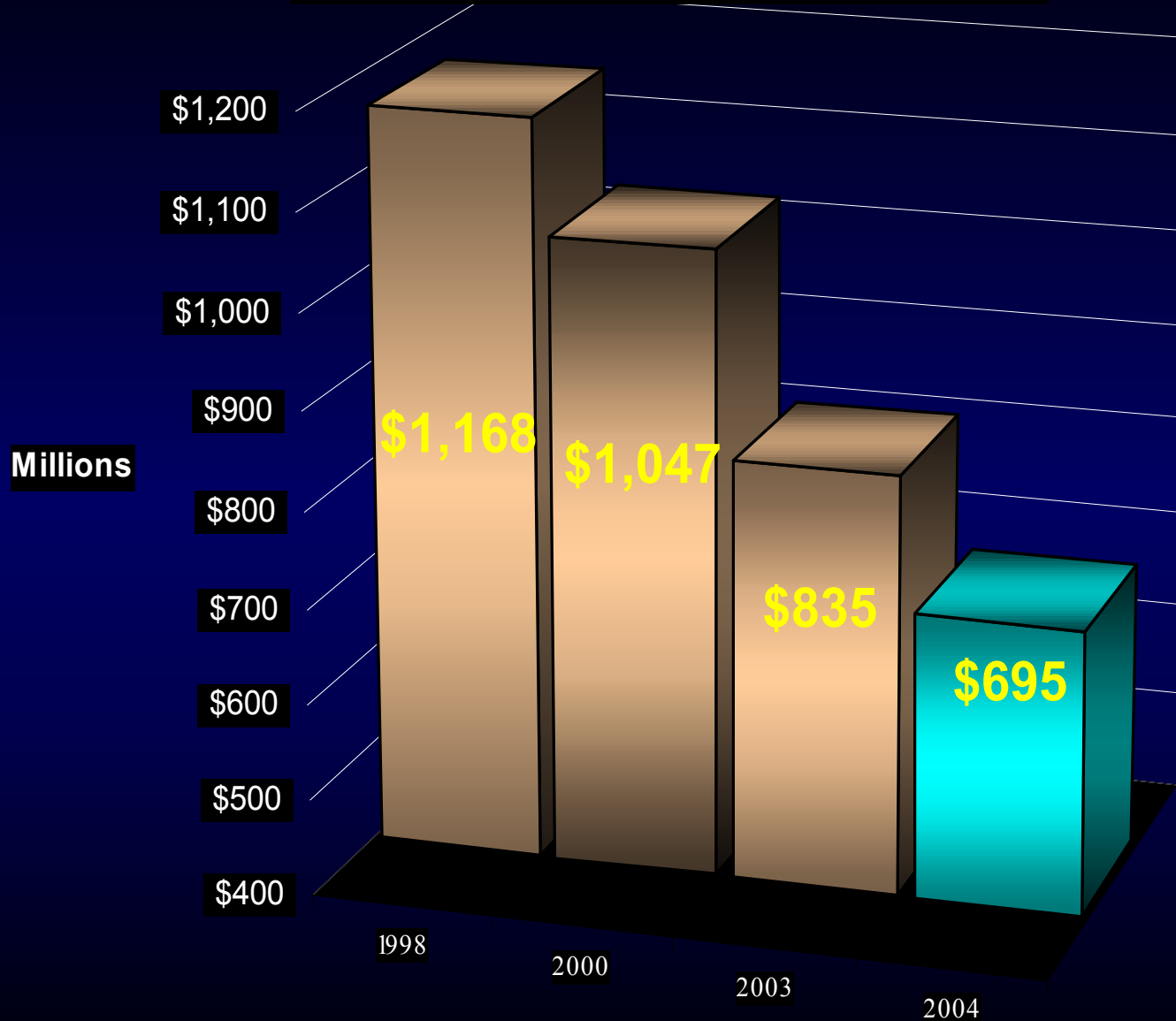
Capital budget comparison

Make Kentucky
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- The Capital budget recommendation is reasonable compared to recent budgets
- Debt Capacity equal to 6% of Debt Service to Revenues

General Fund Bonds	\$588.8 M
Agency Fund Bonds	<u>\$113.7 M</u>
Total Bonds Authorized	\$694.5M

Bonds Authorized in Recent Budgets



Surplus expenditure plan

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1. Teacher salary increases – supplement the recurring cost of FY 05 1.5% raises
2. Read to Achieve program - \$2 million
3. Budget Reserve Trust Fund – up to 1% of revenues
4. New Economy investments - \$25 million
5. Information technology and business systems - \$50 million
6. Budget Reserve Trust Fund

Challenges for the General Assembly

Make Kentucky
Competitive

The General Assembly should

- Fund strategic investments for economic opportunity
- Make tough decisions
- Fix the Commonwealth's broken financial condition
- Show leadership regarding shared sacrifices

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